



# Annex C to the minutes

DATE: 30/06/2020

DEPARTMENT: Monetary Policy Department, Markets Department, Payments Department and Financial Stability Department

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REF.NO. 2020-00745

## Further measures to boost the liquidity supply in the economy

### Decision by the Executive Board

The Executive Board decides

1. that the interest rate on the Riksbank's standing lending facility as from 2 July 2020 shall amount to the applicable repo rate plus 0.10 percentage points,
2. as of 6 July 2020, the Riksbank will offer its monetary policy counterparties loans with a three-month or six-month maturity with full allocation within the framework of weekly market operations against an interest rate corresponding to the applicable repo rate,
3. to give the Head of the Markets Department the task of determining, with the right to delegate this to another, after consultation with the Head of the Monetary Policy Department, the Head of the Payments Department and the Head of the Financial Stability Department, with the right for them to delegate this task to another, the details regarding, and information about, the interest rate on the Riksbank's standing loan facility and the extraordinary market operations considered in this decision, and to
4. to publish the decision on Wednesday 1 July 2020 at 09.30.

### Background

Despite robust economic policy stimulus, the negative consequences of the pandemic are substantial all around the world. Several countries have recently begun to withdraw their restrictive measures and this paves the way for beginning an economic recovery. However, developments are very uncertain and the Riksbank assesses that it will not be until early 2022 that the global economy is back at the same level of activity as prior to

the crisis. The crisis has clear effects on the Swedish economy, too, not least in the form of rapidly rising unemployment.

At an early point, the uncertainty surrounding how households and companies will cope with the crisis was reflected in substantial movements on financial markets, which threatened to exacerbate the negative economic developments. A large number of central banks, including the Riksbank, quickly implemented comprehensive measures to provide the financial systems with liquidity, stimulate the supply of credit to households and companies, and hold borrowing costs down. The governments in most countries have also taken a number of fiscal policy measures.

As part of the Riksbank's package of measures, the Riksbank decided, on 16 March 2020, that the interest rate for the standing lending facility, as of 18 March, would amount to the applicable repo rate plus 0.20 percentage points to ensure that the overnight rate on the market for Swedish kronor is close to the repo rate (ref.no. 2020-00373). On the same occasion, the Executive Board also decided, pursuant to Chapter 6, Article 5 of the Sveriges Riksbank Act (1988:1385), to arrange, for monetary policy purposes, extraordinary market operations and, within the framework of these market operations, offer loans with a three-month maturity with full allocation at a variable interest rate equivalent to the Riksbank's applicable repo rate with a supplement of 0.20 percentage points. With the help of these loans, the Riksbank can strengthen the banks' access to liquidity in Swedish kronor and facilitate their funding, which promotes the banks' role as suppliers of credit to Swedish companies and supports the monetary policy transmission mechanism.

## Considerations

The adjustment of the interest rate on standing facilities and the extraordinary market operations have contributed to the improvement in market developments. However, the coronavirus pandemic is continuing to restrain economic activity in Sweden. The situation on the financial markets is deemed to be fragile and conditional on the central banks continuing to support and secure the liquidity supply in the economy. There are some signs that the credit supply has weakened and that credit has become more expensive. This risks further aggravating the already serious downturn in the economy, and having more prolonged negative consequences for output and employment. Such a development would make it more difficult for the Riksbank to achieve its price stability objective. To avoid the downturn in the economy becoming unnecessarily prolonged and profound and affecting the monetary policy transmission mechanism, the Riksbank needs to continue to support and safeguard the liquidity supply and contribute to holding market rates down.

It is therefore appropriate for the Riksbank, as of 2 July 2020, to further cut the lending rate for the standing lending facility to the applicable repo rate plus 0.10 percentage points against eligible collateral. This will create a narrow, symmetrical interest rate corridor of 0.10 percentage points around the Riksbank's repo rate, meaning that, every banking day, the Riksbank's monetary policy counterparties will be able to borrow or deposit unlimited amounts of Swedish kronor overnight with the Riksbank. This adjustment will apply for credits in the standing lending facility issued as of 2 July. This will thereby allow the Riksbank to ensure that the overnight rate on the market for Swedish kronor will continue to be close to the repo rate and to hold the interest rate on

the overnight market down. The adjustment is in line with the plan for a simplification of the operational framework that the Riksbank decided in September 2019 (ref.no. 2019-00786)

As part of the ongoing work of supporting and safeguarding the liquidity supply, the Riksbank should continue, for monetary policy purposes, to offer its monetary policy counterparties credit within the scope of the extraordinary market operations. However, due to the fragile market situation, the monetary policy stimulation measures need to be expanded further, meaning that the mark-up on the repo rate of 0.20 percentage points will be removed as of 6 July 2020. Instead, credit will be offered with full allocation at a variable interest rate equivalent to the Riksbank's applicable repo rate. In addition to loans with maturities of three months, the Riksbank will also offer loans with maturities of six months within the scope of the extraordinary market operations. These market operations can thus help market rates with slightly longer maturities to approach the repo rate. Loans with a maturity of six months should also be offered with full allocation at a variable interest rate equivalent to the Riksbank's applicable repo rate.

By continuing to direct the offer of the credit provided within the scope of the extraordinary market operations to monetary policy counterparties, the Riksbank can reach the majority of the banks supplying loans in the economy and also ensure equal treatment. Like previously, the offer must include full allocation, assuming that the counterparty can provide collateral for these loans in accordance with the applicable *Terms and conditions for RIX and monetary policy instruments*.

Loans with maturities of three and six months respectively may be offered on a weekly basis as of 6 July 2020 in accordance with the terms and conditions stipulated by this decision. For loans with a maturity of three months granted before this date, the terms and conditions stipulated in the decision of 16 March 2020 apply.

The current measures are justified in terms of monetary policy as described above, with the support of Chapter 6, Article 5 of the Sveriges Riksbank Act (1988:1385).

The Riksbank's measures normally have several different, and partly uncertain, consequences for the national economy and the Riksbank's own finances. The benefits of the respective measures have to be weighed against their potential drawbacks and risks. Adjusting the interest rate on the Riksbank's standing lending facility and offering the monetary policy counterparties, against eligible collateral, loans with three-month or six-month maturities within the framework of weekly market operations in accordance with this decision is considered to increase financial risk only to a limited extent. Because of the high level of awareness about the risks and the efficient approach to risk management employed in the Riksbank's operations, the risks associated with the measures pursuant to these decisions are deemed manageable for the Riksbank.

It is the responsibility of the Head of the Markets Department, with the right to delegate to another person, to determine the precise details regarding the terms for, and information on, the currently applicable extraordinary market operations. The decision will be taken after consultation with the Head of the Monetary Policy Department, the Head of the Payments Department and the Head of the Financial Stability Department, with the right for them to delegate to other persons.